FY 2022 State Budget Update
**FY 2022 State Revenue Update**

General fund revenue collections across the states are strong, according to the results of an NCSL survey of legislative fiscal offices completed primarily in December and January. While a few surveys are outstanding, no state has indicated it is unlikely to meet its revenue forecast for the remainder of fiscal year 2022, which ends June 30 in all but four states and Washington, D.C. Twenty-five states expect to exceed their forecasted revenues, and in many cases, those estimates have already been revised upwards since the beginning of the fiscal year. Another 17 states are on track to meet their current general fund revenue projections for the current fiscal year.

At the start of the pandemic, revenues in states that rely more heavily on oil and gas taxes and states that rely on tourism were projecting significant negative revenue impacts from the economic downturn caused by COVID-19. Rebounding prices for oil and gas have positively affected state revenues in states that rely heavily on severance taxes, with states such as Alaska, New Mexico, North Dakota, Oklahoma and Wyoming expecting to exceed revenue estimates. Nevada, which was anticipating revenue losses at the start of the pandemic as tourism declined dramatically, is also anticipating revenues above projections. Additionally, tourism-dependent Hawaii is now expecting to meet current revenue estimates, which have been revised upwards twice since the beginning of the fiscal year.

Overall, state fiscal conditions have rebounded since the start of the pandemic. Many states are reporting revenue surpluses and rebounding economies, in part as a result of federal aid to state governments.

**Personal Income Tax Collections**

For many states, personal income taxes are the most important revenue source, and make up the largest share of state tax collections. Nine states do not levy a broad-based personal income tax.

Personal income tax collections have been revised up since the start of the fiscal year in nearly half of the states. Arkansas revised its personal income tax forecast downward by $63.1 million but is still likely to exceed its overall revenue projections.

Nearly half of states expect personal income tax collections to exceed projections by the end of FY 2022, and several states expecting better than anticipated personal income tax revenue have also revised their forecasts upwards. Personal income tax collections are reported on target in five states—Arizona, Hawaii, Maine, Maryland and Wisconsin—though in each case, personal income tax collection projections have been revised upwards. Personal income taxes appear to be performing significantly better than states anticipated at the beginning of FY 2022.

Many sectors of the U.S. economy have largely rebounded from the effects of the pandemic, and unemployment rates are low. That, coupled with higher wages, are contributing to higher than estimated personal income tax collections.
General Sales and Use Tax Collections

After personal income taxes, general sales tax collections account for the second largest portion of state revenues. Five states—Alaska, Delaware, Montana, New Hampshire and Oregon—do not levy a state sales tax.

General sales tax collections are expected to exceed estimates in over half of states and are on target in at least another six states including, Arkansas, Hawaii, Maine, Maryland, Washington and Wisconsin. General sales tax collection estimates have been revised upwards in over half of states.

While consumer demands for goods and services has been driving general sales tax revenue growth, some states noted that inflation may also be contributing to higher than anticipated revenue collections.

Corporate Income Tax Collections

Corporate income taxes have historically been a volatile revenue source for states because they are highly susceptible to changes in the broader economy and the business cycle. Six states—Nevada, Ohio, South Dakota, Texas, Washington and Wyoming—do not levy a traditional corporate income tax. Midway through FY 2022, corporate income tax collections appear strong in the states that levy the tax.

Revenues from corporate income tax collections are above estimate in over 20 states, and on target in at least five states. As with personal income tax and general sales tax estimates, revenue projections from corporate income tax collections have been revised upwards in nearly half of states since the beginning of the fiscal year.

Corporate income tax revenue is unlikely to meet the revenue estimate in New Mexico, although the state had previously revised its corporate income tax revenue projections upwards. Maryland revised its corporate income tax revenue estimate downwards during the fiscal year, and collections are now anticipated to meet the revised target.

Other Tax Collections

While many states rely heavily on a mix of personal income taxes, general sales taxes and corporate income taxes for the bulk of their state revenues, some states levy other taxes that are an additional source of revenue. Below is a look at how some of those additional revenue sources are performing.

- In states that levy a severance tax, collections are largely strong. Most states that report levying a severance tax anticipate revenues will exceed estimates, and New Mexico anticipates severance tax collections will meet expectations. Severance tax collections are below estimate in Kentucky, but the state had previously revised estimates upwards. Alabama has revised its severance tax revenue forecast downward due to a leveling of oil and gas prices.
- Real estate transfer tax revenues are also exceeding or meeting expectations in most reporting states. Vermont recently revised its forecast downward.
- Hawaii’s transient accommodations tax has been revised upwards and expected revenues are on target. Vermont also revised expected revenues from the meals and rooms tax upwards.
- Revenue from lottery taxes are above estimate in South Dakota, and Nevada and Nebraska are both seeing better than projected revenues for their percentage fee tax on gross gaming revenue.
• Ohio’s commercial activity tax revenues and Oregon’s recently enacted corporate activity tax revenues are above estimates, and Washington’s business and occupation tax revenue is on target after being revised significantly upwards in November.

Conclusion

In the near term, the fiscal situation in most states across the country is strong. Legislative fiscal directors describe revenue surpluses and growing rainy day fund reserves. Stronger than anticipated revenues, along with large amounts of federal aid will shape the conversations and policy decisions in many state capitols this session, and budget surpluses have many states considering temporary or permanent tax reductions.

Over the long-term, there is less certainty about the strength of state fiscal conditions. The one-time nature of federal funds potentially sets states up to face a fiscal cliff as federal funding runs out, but projects and programs funded with federal aid continue. States are cautiously optimistic that robust revenue growth will continue, but there are many external factors that could affect revenue growth, and accurate revenue estimating continues to be a challenge for states. The continued presence of COVID-19, inflation, supply chain issues and global conflict are all risks to the U.S. economy that affect state finances.

For the time being, revenue growth continues to exceed expectations, and policymakers will likely spend a significant amount of time prioritizing the use of those funds in 2022 legislative sessions.